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Message Text

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61
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FOR ENDERS AND JULIUS KATZ

FOLLOWING REPEAT OTTAWA 2426 ACTION SECSTATE 27 JUN 75

QUOTE

UNCLAS OTTAWA 2426

POUCHED INFO ALL CONGENS CANADA

E.O. 11652: N/A
TAGS: ENRG EFIN CA
SUBJECT: ENERGY: GASOLINE EXCISE TAX AND OIL IMPORT COMPENSATION SCHEME

1. DURING COMMONS QUESTION PERIOD ON JUNE 25, PC OPPOSITION LEADER STANFIELD PRESSED MINFIN TURNER FOR INFORMATION ON ESTIMATED GAS CONSERVATION EFFECTS OF TEN CENT PER GALLON EXCISE TAX ANNOUNCED IN JUNE 23 BUDGET PRESENTATION AND EFFECTIVE JUNE 24. TO SOME SURPRISE, TURNER RESPONDED THAT WHILE ONE RESULT OF THE GAS TAX "WILL HOPEFULLY BE MODERATION IN CONSUMPTION OF GAS AT THE PUMP FOR PERSONAL USE ONLY" THE "PRIME PURPOSE" OF THE TAX IS TO PAY FOR A SINGLE OIL PRICE IN CANADA. HE SPECIFICALLY STATED, "BECAUSE OF FALLING EXPORTS AND DIMINISHING REVENUES FROM THE EXPORT TAX AS AGAINST THE SUBSIDY
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PAID TO THE PEOPLE OF EASTRN ONTARIO, QUEBEC AND THE ATLANTIC

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PROVINCES TO MAINTAIN A NATIONAL OIL PRICE, WE HAVE TO BRING THE ACCOUNT INTO BALANCE BY A GASOLINE TAX WHICH WILL MAKE UP THE DEFICIT AND ALLOW THE PEOPLE OF CANADA TO PAY FOR A NATIONAL, SINGLE OIL PRICE IN CANADA."

2. MEANWHILE, GREAT CONFUSION HAS REIGNED, AT LEAST IN THE OTTAWA AREA, ON RETAIL PUMP PRICES. MANY GAS STATIONS HAD ERECTED NEW PRICE SIGNS BY THE MORNING OF JUNE 24, REFLECTING THE TEN CENT PER GALLON TAX. BY YESTERDAY EVENING (JUNE 26) SOME SIGNS HAD BEEN ALTERED AGAIN, SUSPENDING THE TEN-CENT INCREASE. FOR PURPOSE OF CLARIFICATION, ENERGY MINISTER MACDONALD, ALSO RESPONDING TO COMMONS QUESTIONS ON JUNE 25, STATED THAT "THE TAX, IN FACT, WILL BE LEVIED ON THE PARTICULAR COMPANIES (AT THE WHOLESALE LEVEL) ON THE BASIS OF DELIVERIES MADE AFTER THE EFFECTIVE DATE" (JUNE 24). "OF COURSE", HE CONTINUED, "INVENTORIES NOW IN PLACE AT THE RETAIL LEVEL WOULD NOT BE EXIGIBLE FOR TAX. IF THE PROVINCIAL GOVERNMENTS HAVE ANY CONCERN ABOUT THE ADMINISTRATION AT THE RETAIL LEVEL, OF COURSE, THEY WILL TAKE THEIR OWN RESPONSIBILITY." ACCORDING TO THE LOCAL PRESS, ONTARIO PREMIER DAVIS IS ACTIVELY INVESTIGATING WHAT STEPS HE MIGHT TAKE TO EXERCISE PRICE RESTRAINT AT THE RETAIL LEVEL NOT ONLY OF THE EXCISE TAX BUT INCLUDING DEFERRAL BEYOND AUGUST 15 OF PRICE INCREASES BASED ON THE INCREASED WELL-HEAD PRICE TO $8.00 PER BARREL ON JULY 1. THE FEDERAL GOVERNMENT HAS SUGGESTED THE AUGUST 15 DATE ON THE BASIS THAT COMPANIES HAVE APPROXIMATELY 45-DAYS SUPPLY OF $6.50 BARREL OIL ON HAND, WHILE DAVIS IS REPORTEDLY CLAIMING THAT COMPANY INVENTORIES ARE SUFFICIENT FOR UP TO 90-DAYS AND MAY ASK FOR A VOLUNTARY PRICE FREEZE IN ONTARIO UNTIL FALL. (THE PRICE INCREASES RESULTING FROM THE NEW JULY 1 WELL-HEAD PRICES ARE ESTIMATED BY THE FEDERAL GOVERNMENT AT 5 CENTS PER GALLON AT THE WHOLESALE LEVEL.

3. ON A RELATED SUBJECT, ENERGY MINISTER MACDONALD ANNOUNCED ON JUNE 26 CHANGES IN THE FEDERAL OIL IMPORT COMPENSATION SCHEME. EFFECTIVE JULY 1, IMPORTERS WILL RECEIVE A FLAT SUBSIDY RATE PER BARREL
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DETERMINED BY AVERAGING LANDED PRICES OF IMPORTED CRUDE FROM MAJOR SUPPLIERS ON AN INDUSTRY-WIDE BASIS. ACCORDING TO MACDONALD, THIS WILL ELIMINATE BIAS IN THE SOURCE OF IMPORTS AND PROMOTE COMPETITION IN THE PURCHASE OF OIL IMPORTS. (THE "BIAS" REFERS TO THE FACT THAT CERTAIN VAGARIES IN THE OPERATION OF THE IMPORT SUBSIDY SCHEME UNTIL NOW HAVE FAVORED MIDDLE EAST OIL OVER VENEZUELAN.) MACDOALD REPORTEDLY CLAIMS

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THAT THE NEW RULES WILL RESULT IN A COMPENSATION
PAYMENTS SAVING OF $180 MILLION ANNUALLY. THIS SAVING,
PLUS ANTICIPATED RECEIPTS FROM THE GASOLINE EXCISE
TAX, IS SUPPOSED TO COVER THE ESTIMATED $375 MILLION
DEFICIT FOR THE CURRENT FISCAL YEAR BETWEEN OIL
COMPENSATION PAYMENTS AND LOWERED EXPORT TAX RECEIPTS
RESULTING FROM DECREASING CRUDE OIL EXPORTS TO THE U.S.
JOHNSON

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